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Interim report for the period 1 January – 30 September 2008

Summary

- The production ramp-up is progressing more slowly than expected due to the financial crisis.
- As expected, Danionics reported a loss for the third quarter of DKK 0.4 million before recognition of a DKK 2.6 million value adjustment in Danionics Asia.
- The company reiterates its full-year forecast of a loss of DKK 2-3 million before recognition of the share of the profit or loss or value adjustment in Danionics Asia.
- As planned, Danionics contributed DKK 2.6 million to Danionics Asia in the third quarter. In 2008 to date, Danionics has contributed DKK 7.5 million to Danionics Asia. For the full-year 2008, the capital contribution to Danionics Asia is expected to amount to up to DKK 10 million.

Q3 financial performance

As expected, Danionics reported a loss for the third quarter of DKK 0.4 million before recognition of a DKK 2.6 million writedown of the loan capital to Danionics Asia. The writedown equals the amount which Danionics contributed as loan capital to Danionics Asia in the third quarter. Apart from the writedown, the Q3 financial performance was on a level with the results achieved in Q3 2007, when Danionics reported a loss of DKK 0.3 million.

The loan capital to Danionics Asia is recognised in the amount of DKK 0, as against DKK 32 million at 30 September 2007. In connection with the presentation of the annual report for 2007, the loan capital was written down to DKK 0. This valuation was retained in 2008, and the capital contribution has therefore been written down over the income statement.

The Board of Directors will evaluate the valuation in connection with the preparation of the annual report.

Cash amounted to DKK 13.5 million. Equity amounted to DKK 14.1 million at the end of the third quarter, down from DKK 23.5 million at 31 December 2007. The reduction in equity corresponds to the net loss for the period.

The joint venture

The production ramp-up announced by Danionics in its interim report for the first half of 2008 is progressing more slowly than hoped for and expected.

In September 2008, the company suffered from supply-chain issues in respect of raw materials, preventing the joint venture from selling more than just over 80,000 batteries as compared with the target of 140,000 units.

Secondly, more or less all small customers cancelled or postponed their orders in October and November, which means that fourth-quarter revenue will average only some 50,000 batteries per month. Customers cancelled or postponed their orders because they are experiencing a slowdown in the market due to the financial crisis.

The key customers are also indicating a wish to wait and see how the consumers will react.

The first of the above-mentioned key customers reduced its production order by 50% in the third quarter and has reduced the order further in the fourth quarter.

The second customer is taking delivery of test batteries as agreed. If the outcome of this customer's test is positive, the customer will remain intent on placing substantial orders with Danionics Asia in 2009.

The third customer is awaiting final clarification of the in-depth audit, in which a few issues are still outstanding.

Although regrettable, these order reductions are fully understandable. Very few businesses currently have an overview of the market situation and therefore opt to reduce their inventories to safeguard liquidity.

At the same time, however, Danionics Asia is experiencing a substantial increase in the number of enquiries. A major competitor has indicated its intent to withdraw from the Lithium Polymer market, and other manufacturers have suffered major technical problems. In a number of cases, considerable batches of batteries have had to be withdrawn. This puts the focus on manufacturers dedicated to quality.

During the past 4 months, Danionics has shipped 230,000 batteries and has not received any quality claims from its customers. That is very positive news.

The sharp drop in raw materials prices is also a favourable factor for Danionics Asia. For example, prices of cobalt have dropped by 60% over the past 4 months.

Manufacturing

The new and experienced factory manager has introduced an improved lay-out, and comprehensive training efforts being made for the employees to learn how to manufacture larger batches every day, instead of test batteries now and then. That is a major challenge.

The management team has undergone major changes, and further reshuffles are planned. First and foremost, very strict procedures are being introduced in terms of quality.

The production of negative electrodes is progressing satisfactorily. A comprehensive training programme is being prepared for the more demanding in-house production of positive electrodes, which are currently sourced from a sister factory.

The investments necessary to lift the factory's output capacity from 300,000 batteries per month to 500,000 have been audited. These costs are still expected to be below the DKK 500,000 mark.

The revised production ramp-up plan aims achieve a production of 300,000 batteries in April 2009. As a result, the investment in new capacity will be made simultaneously in order for the factory to have a monthly output capacity of 500,000 batteries by mid-2009. This figure can be adjusted if the market turns negative. Costs are controlled in an ongoing process and are regularly reduced.

Towards the end of December 2008 or in early 2009, additional capital contribution is required from each partner, as announced in the half-year report. Danionics A/S currently expects that this capital contribution will be sufficient to see Danionics Asia through the first half of 2009.

Danionics A/S has sufficient funds to contribute additional capital again in 2009 if that should prove necessary.

Future developments

Things are generally moving in the right direction, but break-even remains subject to a breakthrough with one, or preferably two, of the key customers. That means continuing major challenges for Danionics Asia not only in terms of sales but also in respect of ramping up the business to mass production.

Outlook for 2008

Danionics retains the forecast for 2008 presented in the annual report for 2007 released on 10 March 2008. The results for 2008 will be impacted by marketing and sales costs concerning Danionics Asia and administrative expenses of approximately DKK 2.5 million. As a result, the company expects an overall loss in the region of DKK 2-3 million after interest income but before recognition of the share of the profit or loss or value adjustment in Danionics Asia.

Moreover, the company will realise income from the sales efforts undertaken by Danionics A/S.

The company expects to contribute additional capital to Danionics Asia of up to DKK 2.5 million in 2008. To date, the capital contribution has run to DKK 7.5 million in 2008.

For additional information, please contact:

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Financial figures and key ratios (unaudited)

DKK '000 except financial ratios	Q3 2008	Q3 2007	Q1-Q3 2008	Q1-Q3 2007	Full year 2007
Income statement:					
Revenue	0	0	1	0	0
Production costs	0	0	0	0	0
Other income	0	0	0	0	0
Gross profit/(loss)	0	0	1	0	0
Administrative expenses	-602	-415	-2,511	-2,065	-2,776
Operating profit/(loss) (EBIT)	-602	-415	-2,510	-2,065	-2,776
Net result in affiliated company (joint venture)	-2,578	0	-7,539	0	-32,029
Net financial income/expenses)	213	83	632	630	930
Profit/(loss) before tax	-2,967	-332	-9,417	-1,435	-33,875
Tax on the profit/(loss) for the period	0	0	0	0	0
Net profit/(loss) for the period	-2,967	-332	-9,417	-1,435	-33,875
Balance sheet					
Assets					
Investments in associate	0	0	0	0	0
Loan capital, associate	0	31,955	0	31,955	0
Other investments	429	479	429	479	429
Total investments	429	32,434	429	32,434	429
Receivables and accruals	1,375	427	1,375	427	593
Cash	13,480	24,511	13,480	24,511	23,840
Total current assets	14,855	24,938	14,855	24,938	24,433
Total assets	15,284	57,372	15,284	57,372	24,862
Equity and liabilities					
Total equity	14,101	56,034	14,101	56,034	23,518
Total short-term liabilities other than provisions	1,183	1,338	1,183	1,338	1,344
Total equity and liabilities	15,284	57,372	15,284	57,372	24,862
Cash flow statement:					
Net cash flow from/to operating activities	-522	-674	-2,821	-8,219	-8,787
Net cash flow from/to investing activities	-2,578	-2,628	-7,539	-23,529	-23,005
Net cash flow from/to financing activities	0	0	0	202	-425
Capital investment:					
Investments	2,578	2,628	7,539	23,529	23,005
Total capital investments	2,578	2,628	7,539	23,529	23,005
Depreciation, amortisation and impairment (excl. inventory write down)	2,578	0	7,539	0	32,029
Financial ratios:					
Equity ratio (%)	92.3	97.7	92.3	97.7	94.6
Booked value per share (DKK)	1.01	4.01	1.01	4.01	1.68
Market price per share, end of period (DKK)	4.65	14.50	4.65	14.50	11.60
Average number of employees	1	1	1	1	1
Earnings per share (EPS)	-0.21	-0.02	-0.68	-0.10	-2.43
Diluted earnings per share (EPS-D)	-0.21	-0.02	-0.66	-0.10	-2.36

Statement of changes in equity (unaudited)

DKK'000	Share capital	Net revaluation acc. to the equity method	Retained earnings, incl. share premium account	Total
Equity				
1 January 2007	13,946	474	43,447	57,867
Capital increase, warrant exercise	19	0	183	202
Adjustment, offering new shares 2006	0	0	600	0
Net loss	0	0	-1,435	-1,435
Equity at 30 September 2007	13,965	474	41,595	56,034
Equity				
1 January 2008	13,965	425	9,128	23,518
Net loss	0	0	-9,417	-9,417
Equity at 30 September 2008	13,965	425	-289	14,101

Statement by the Management Board and the Board of Directors

The Board of Directors and the Management Board have today considered and adopted the interim report of Danionics A/S for the period 1 January – 30 September 2008.

The interim report is presented in accordance with IAS 34 on interim financial reporting and additional Danish disclosure requirements for listed companies. The accounting policies applied in the interim report are unchanged from those applied in the annual report for 2007.

We consider the accounting policies to be adequate, the accounting estimates to be reasonable and the overall presentation of the interim report to be appropriate. In our opinion, the interim report gives a true and fair view of the company's assets and liabilities and financial position at 30 September 2008 and of the results of the company's operations and cash flows for the period 1 January – 30 September 2008.

Furthermore, it is our opinion that the Management's Discussion and Analysis of Operations give a fair presentation of the development in the company's activities and financial conditions, the results for the period and of the financial position of the company as a whole as well as a description of the most material risks and uncertainties that face the company.

The interim report is unaudited.

Copenhagen, 28 November 2008

Management Board

Henning O. Jensen

Board of Directors

Karsten Borch
Chairman

Frank Gad

Henrik Ottosen